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C O N F I D E N T I A L SECTION 01 OF 02 RIYADH 001472

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TAGS: [ECON](#) [EFIN](#) [EINV](#) [SA](#)

SUBJECT: BANKERS SANGUINE ABOUT SAUDI ECONOMIC PROSPECTS

REF: A. ABU DHABI 1008

[1](#)B. RIYADH 1392

[1](#)C. RIYADH 1340

Classified By: CDA Susan L. Ziadeh for reasons 1.4 (b) and (d)

#### Summary

[1](#)1. (C) Private bankers and government officials in Saudi Arabia insist that domestic Saudi banks did not receive special treatment in the AHAB - Saad Group dispute, despite protests by overseas lenders to the contrary. Embassy contacts contend that Saudi banks just wrote better loans that required strong collateral commitments by the Saad Group, a position that we cannot verify and that non-Saudi lenders have threatened to challenge in court if an accord is not reached. The Al-Gosaibis' debts have yet to be settled as their collateral consisted of less liquid assets such as real estate, according to SAMA and private bankers. Saudi bankers (who stand to gain from reduced competition) do not expect any slowdown in international lending to have a significant effect on the economy, nor do they expect it to last long if it does indeed materialize. End summary.

#### AHAB - Saad Group Dispute

[1](#)2. (C) During a recent discussion with a Western ambassador, central bank Governor Dr. Muhammed Al-Jasser said that there had been no "deal" favoring domestic Saudi banks at the expense of international banks in terms of their dealings with Maan Al-Sanea's Saad Group. Instead, they had exercised a clause in their contracts with Saad Group allowing them to seize certain assets which had been used as collateral for the loans they had extended, he said. Al-Jasser continued, saying international banks should have had the foresight to write similar clauses into their contracts. (Note: Overseas banks state that the Saad Group committed fraud by pledging the same collateral to multiple recipients. They complain that the Saudi banks unilaterally seized this collateral, ignoring legitimate claims by non-Saudi lenders. End note.) He did confirm that he had personally fired Saud Al-Gosaibi from Samba bank's board, as has been alleged in recent press articles. According to the ambassador, Al-Jasser did not seem particularly concerned about a slow down in international bank lending in the Kingdom, quoting him as saying most of the lending comes from domestic banks and the government. (Note: Jasser's position on international lending contradicts statements made by SAMA prior to the dispute. In the wake of the financial crisis when international credits to Saudi dried up, SAMA routinely noted the importance of international lending to the Kingdom and closely followed international credit conditions. End note.)

13. (C) A senior officer at one of the Saudi banks that settled with Saad Group echoed Al-Jasser's comments, saying Saad Group had committed Samba shares, held by Samba, as collateral for their domestic loans. He further said a condition of the Saudi government's forcing Saad Group to comply with these obligations was that the banks receiving Samba shares could not sell them (it was unclear what the time limit was on this requirement). This banker, and others, also said that this resolution came about as part of a "standard" resolution committee process that SAMA has employed for years and is similar to how other countries resolve problem loans -- they follow the contracts. The banker believed these settlements cleared the Saad Group's domestic debts and that international debts would be covered by assets seized in the Cayman Islands that belonged to the Saad Group's Geneva "hedge fund." On the other hand, he said the Al-Gosaibis' debts would take longer to clear as their assets were less liquid (mostly real estate and business concerns) and that the bank's external auditors had recently directed banks to increase their provisions on Al-Gosaibi loans from 21 percent to 25 percent. He expected his bank to increase their provisions to 30 percent in early 2010.

#### Economy Recovering Slowly

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14. (C) In several meetings with private commercial and investment bankers, the message on the general economy was the same: while 2009 is expected to see a 1 to 1.5 percent drop in GDP in the Kingdom, non-oil GDP is expected to show

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moderate growth and, in 2010, the economy is expected to show significant growth. According to senior officers at the Olayan Financing Company, a holding company with 30 companies in 7 sectors, the two negative factors limiting the Saudi economy at the moment are the AHAB - Saad Group dispute and the collapse of the real estate market in Dubai. They said they were concerned about the lack of warning in advance of Maan Al-Sanea and the Al-Gosaibis' defaults, the perception that domestic banks might be getting a sweetheart deal, and the size of the defaults relative to the size of the Saudi commercial debt market. That said, they expect to see long-term benefits from the defaults, in that they expect local banks to demand greater transparency from their clients and greater due diligence from their loan officers. The Olayan Group representatives said any slowdown in lending by international banks would be temporary as they "have short memories."

15. (C) Dr. Fahad Al-Mubarak, chairman of Morgan Stanley Saudi Arabia, of the Saudi Stock Exchange (the Tadawul), and former Shoura council member, told Econcouns on October 27 that Saudi Arabia does need international bank lending as local banks are not large enough to finance infrastructure mega projects and, while the government provides some financing, international banks provide much of the rest. That said, he also said that international bank lending will return to the GCC countries as the banks realize that this is the region of the globe that will most quickly return to high levels of economic growth. Al-Mubarak said he sees the AHAB - Saad Group dispute not as two problems, but as one: Maan Al-Sanea. He said Al-Sanea destroyed his own business and his in-laws' (the Al-Gosaibis) business and that this is not a trend or phenomenon that is going to spread to other family businesses in the region.

16. (C) During an October 28 meeting with senior officers at Riyadh Bank, they told Econcouns that while international lending was still important for mega projects, it was not as important as it used to be for other economic activity. They said that if the AHAB - Saad Group dispute temporarily reduces international bank lending in the Kingdom, it will actually be good for them as it will lessen the fierce competition for Saudi market share. According to Riyadh bank

officials, international banks have, historically, been far more likely to lend without collateral to Saudi companies based on family names than domestic banks. According to them, domestic banks are particularly insistent on collateral when the loan is to a family company.

Comment

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17. (C) While private bankers and officials in Saudi Arabia insist that there was no sweetheart deal for domestic Saudi banks in the AHAB - Saad Group dispute, the international uproar will likely continue until an accord with overseas lenders is reached. Although Saudi bankers and finance officials express confidence that any reduction in international credit lines will be temporary and insignificant, a comprehensive resolution consistent with international bankruptcy standards is clearly in the best interest of the greater Saudi economy going forward.  
ZIADEH